



ZIMBABWE EZEKIEL GUTI UNIVERSITY

FACULTY OF LAW, BUSINESS INTELLIGENCE AND ECONOMICS

DEPARTMENT OF ACCOUNTING, FINANCE AND HUMAN CAPITAL
MANAGEMENT

EXAMINATION PAPER

COURSE CODE : CAC422
COURSE TITLE : ADVANCED FINANCIAL REPORTING
DURATION : 3 Hours
LEVEL : 4.2
DATE : 09 APR 2025

INSTRUCTIONS TO CANDIDATES:

1. No cell phones are allowed in the examination venue.
2. Answer **all** questions in **Section A and Section B**.
3. Begin each question on a new page for Section B only.
4. Non-programmable calculator may be used in the examination
5. The number of marks for each question or part question is shown in brackets []

SECTION A: ANSWER ALL QUESTIONS

SELECT THE MOST APPROPRIATE ANSWER

1. Purutana acquired 90% of Save's ordinary shares on 1 January 2019 for \$1,250,000 when Save's retained earnings were \$300,000. At 1 January 2018 the fair value of the net assets of Save exceeded their carrying value by \$90,000 and the fair value of the Non-Controlling Interest was \$200,000. The remaining useful life of the assets was 9 years from acquisition. The equity of Save as at 31 December 2020:

	\$
Ordinary share capital	430,000
Share premium	86,000
Retained earnings	324,000

The retained earnings of Purutana were \$2,100,000 at 31 December 2020.

What is the amount that Purutana should include in its consolidated statement of financial position as at 31 December 2020 for the Non-Controlling Interest?

- A. \$250,000 B. \$204,600 C. \$205,000 D. \$204,400

2. On 1 January 2018, Jesse acquired 70% of the equity share capital of Pindwi. Extracts of their statements of profit or loss for the year ended 30 September 2018 are:

	Juzi \$'000	Pindwi \$'000
Revenue	50,000	23,000
Cost of sales	(32,000)	(11,000)

Sales from Juzi to Pindwi throughout the year ended 30 September 2018 had consistently been \$200,000 per month. At the date of acquisition some plant that was valued at \$30m in the Financial Statements of Pindwi had a fair value of \$33m and a remaining useful economic life of 10 years.

What would be the cost of sales in Juzi's consolidated statement of profit or loss for the year ended 30 September 2018?

- A. \$38.450 million B. \$38.675 million C. \$41.425 million D. \$40.250million

3. An entity purchases a building and the seller accepts payment partly in equity shares and partly in debentures of the entity. This transaction should be treated in the cash flow statement as follows:
- A. The purchase of the building should be investing cash outflow and the issuance of shares and the debentures financing cash outflows.
- B. The purchase of the building should be investing cash outflow and the issuance of debentures financing cash outflows while the issuance of shares investing cash outflow.
- C. This does not belong in a cash flow statement and should be disclosed only in the footnotes to the financial statements.

D. Ignore the transaction totally since it is a noncash transaction. No mention is required in either the cash flow statement or anywhere else in the financial statements.

4. An entity (other than a financial institution) receives dividends from its investment in shares. How should it disclose the dividends received in the cash flow statement prepared under IAS 7?

A. Operating cash inflow.

B. Either as operating cash inflow or as investing cash inflow.

C. Either as operating cash inflow or as financing cash inflow.

D. As an adjustment in the "operating activities" section of the cash flow because it is included in the net income for the year and as a cash inflow in the "financing activities" section of the cash flow statement.

5. An investor sells inventory for cash to a 25% associate. The inventory cost the investor \$6 million and is sold to the associate for \$10 million. None of the inventory has been sold at year-end.

How much of the profit on the transaction would be reported in the group accounts?

A. \$4 million.

B. \$1 million.

C. \$3 million.

D. Zero.

6. How is goodwill arising on the acquisition of an associate dealt with in the financial statements?

A. It is amortized.

B. It is impairment tested individually.

C. It is written off against profit or loss.

D. Goodwill is not recognized separately within the carrying amount of the investment.

7. Zuru owns 60% of the equity of Mutapa Co, which owns 75% of the equity of Barwe Co.

What is Zuru Co's effective holding in Barwe Co?

A. 75%

B. 60%

C. 45%

D. 135%

8. Brix Co owns 60% of the equity of Complex Co which owns 75% of the equity of Dex Co.

What is the total noncontrolling interest percentage ownership in Dex Co?

A. 45%

B. 55%

C. 25%

D. 40%

9. A joint operation is:

A. a joint arrangement whereby the parties that have joint control (the joint operators) have rights to the assets, and obligations for the liabilities, of that joint arrangement.

B. a joint arrangement that is structured through a separate entity.

C. a joint arrangement whereby the parties that have joint control (the joint venturers) of the arrangement have rights to the net assets of the arrangement.

D. a parent company having significant influence over the subsidiary.

10. Joint ventures are accounted for using:

A. The cost model

- B. The revaluation model
- C. Equity method
- D. Consolidation method

[Total 20 marks]

SECTION B: ANSWER ALL QUESTIONS. Begin each question on a new page.

Question 1

On 1 May 2023 Lungisa bought 60% of Thaiso paying \$76,000 cash. The summarised Statements of Financial Position for the two companies as at 30 November 2023 are:

	Lungisa	Thaiso
	\$	\$
Non-current assets:		
Property, plant and equipment	138,000	115,000
Investments	98,000	-
	236,000	115,000
Current assets:		
Inventory	15,000	17,000
Receivables	19,000	20,000
Cash	2,000	-
Total assets	272,000	152,000
Equity:		
Share Capital	50,000	40,000
Retained earnings	189,000	69,000
	239,000	109,000
Non-current liabilities:		
8% Loan note	-	20,000
Current liabilities:		
Payables	28,000	21,000
Accrued expenses	5,000	2,000
Total equity and liabilities	272,000	152,000

The following information is relevant:

1. The inventory of Lungisa includes \$8,000 of goods purchased for cash from Thaiso at cost plus 25%.
2. On 1 June 2023, Lungisa transferred an item of plant to Thaiso for \$15,000. Its carrying amount at that date was \$10,000. The asset had a remaining useful economic life of 5 years.
3. The Lungisa group values the non-controlling interest using the fair value method. At the date of acquisition the fair value of the 40% non-controlling interest was \$50,000.
4. An impairment loss of \$1,000 is to be charged against goodwill at the year-end.
5. Thaiso earned a profit of \$9,000 in the year ended 30 November 2023.
6. The loan note in Thaiso's books represents monies borrowed from Lungisa on 30 November 2023.
7. Included in Lungisa's receivables is \$4,000 relating to inventory sold to Thaiso during the year. Thaiso raised a cheque of \$2,500 and send it to Lungisa on 29 November 2023. Lungisa did not receive this cheque until 4 December 2023.

Required:

Prepare a consolidated statement of financial position of the Lungisa group as at 30 November 2023. [25marks]

Question 2

The draft statements of financial position of Plastex Co, Solex Co and Silver Stylus Co on 30 June 2023 were as follows:

	Plastex	Solex	Sliver Stylus
	\$	\$	\$
Non-current assets:			
Property, plant and equipment	105,000	125,000	180,000
Investments at cost:			
80,000 shares in Solex	120,000	-	-
60,000 shares in Silver Stylus	-	110,000	-
	225,000	235,000	180,000
Current assets:			
Inventory	20,000	15,000	25,000
Receivables	50,000	36,000	14,000
Bank	10,000	19,000	21,000
Total assets	305,000	305,000	240,000
Equity:			
Ordinary shares of \$1 each	80,000	100,000	100,000
Retained earnings	195,000	170,000	115,000
	275,000	270,000	215,000
Current liabilities:			
Payables	30,000	35,000	25,000
Total equity and liabilities	305,000	305,000	240,000

Additional information:

1. Plastex acquired its shares in Solex on 1 July 2020 when the reserves of Solex stood at \$40,000; and
2. Solex acquired its shares in Silver Stylus on 1 July 2021 when the reserves of Silver Stylus stood at \$50,000.
3. It is the group's policy to measure the non-controlling interest at acquisition at its proportionate share of the fair value of the subsidiary's net assets.
4. Assume no impairment of goodwill.

Required:

Prepare the draft consolidated statement of financial position of Plastex Group at 30 June 2023. [25marks]

Question 3

On 1 April 2022 Pilani acquired 75% of Sarai's equity shares in a share exchange of three shares in Pilani for every two shares in Sarai. The market prices of Pilani's and Sarai's shares at the date of acquisition were \$3.20 and \$4.50 respectively.

In addition to this Pilani agreed to pay a further amount on 1 April 2023 that was contingent upon the post-acquisition performance of Sarai. At the date of acquisition Pilani assessed the fair value of this contingent consideration at \$4,200 but by 31 March 2023 it was clear that the actual amount to be paid would be only \$2,700 (ignore discounting). Pilani has recorded the share exchange and provided for the initial estimate of \$4,200 for the contingent consideration.

On 1 October 2022 Pilani also acquired 40% of the equity shares of Aguma paying \$4 in cash per acquired share and issuing at par one \$100, 7% loan note for every 50 shares acquired in Aguma. This consideration has also been recorded by Pilani. Pilani has no other investments. The summarised statements of financial position of the three companies at 31 March 2023 are:

	Pilani	Sarai	Aguma
	\$	\$	\$
Non-current assets:			
Property, plant and equipment	37,500	24,500	21,000
Investments	45,000	-	-
	82,500	24,500	21,000
Current assets:			
Inventory	8,000	7,000	4,500
Receivables	5,000	1,500	3,000
Cash	3,500	2,000	500
Total assets	99,000	35,000	29,000
Equity:			
Share Capital	25,000	8,000	5,000
Share premium	19,800	16,500	15,000
Retained earnings b/f	16,200	-	-
Retained earnings for the year to 31 /03/2023	11,000	1,000	6,000
	72,000	25,500	26,000
Non-current liabilities:			
7% Loan note	14,500	2,000	-
Contingent consideration	4,200	-	-
Current liabilities:			
Payables	7,000	6,500	3,000
Accrued expenses	1,300	1,000	-
Total equity and liabilities	99,000	35,000	29,000

1. At the date of acquisition the fair values of Sarai's property, plant and equipment was equal to its carrying amount with the exception of Sarai's factory which had a fair value of \$2,000 above its carrying amount. Sarai has not adjusted the

carrying amount of the factory as a result of the fair value exercise. This requires additional annual depreciation of \$100 in the consolidated financial statements in the post-acquisition period.

2. Also at the date of acquisition, Sarai had an intangible asset of \$500 for software in its statement of financial position. Pilani's directors believed the software to have no recoverable value at the date of acquisition and Sarai wrote it off shortly after its acquisition.
3. At 31 March 2023 Pilani's current account with Sarai was \$3,400 (debit). This did not agree with the equivalent balance in Sarai's books due to some goods-in-transit invoiced at \$1,800 that were sent by Pilani on 28 March 2023, but had not been received by Sarai until after the year end. Pilani sold all these goods at cost plus 50%.
4. Pilani's policy is to value the non-controlling interest at fair value at the date of acquisition. For this purpose Sarai's share price at that date can be deemed to be representative of the fair value of the shares held by the non-controlling interest.
5. Impairment tests were carried out on 31 March 2023 which concluded that the value of the investment in Aguma was not impaired but, due to poor trading performance, consolidated goodwill was impaired by \$3,800.
6. Assume all profits accrue evenly throughout the year.

Required:

**Prepare the consolidated statement of financial position as at 31 March 2023.
[30marks]**

END OF EXAMINATION QUESTION PAPER